

The Honorable Richard A. Jones

UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF WASHINGTON  
AT SEATTLE

PHYTELLIGENCE, INC.,

Plaintiff,

v.

WASHINGTON STATE UNIVERSITY,

Defendant.

NO. 2:18-cv-00405-RAJ

PHYTELLIGENCE’S REPLY TO WSU’S  
OPPOSITION TO MOTION FOR  
REMAND

NOTED ON CALENDAR: APRIL 6, 2018

Washington State University’s (“WSU”) Opposition to Phytelligence, Inc.’s (“Phytelligence”) Motion for Remand raises new issues and arguments in an attempt to support the exercise of federal jurisdiction over all claims and counterclaims asserted. Its Response perhaps would have demonstrated a basis for removal of its duplicative patent infringement claim, except for the fact that WSU previously filed identical patent claims pending in federal court.<sup>1</sup> Instead, although WSU’s brief identifies a change in direction regarding the issues a Court must consider, it fails to establish that supplemental jurisdiction can or should be exercised by the Court over the state law claims, including Phytelligence’s state law breach of contract and declaratory judgment claims against WSU. Consequently, the Court should remand Phytelligence’s complaint and WSU’s state law claims to the Superior Court for King County, Washington and should ultimately dismiss WSU’s patent infringement counterclaim in deference to WSU’s already pending and first-filed patent infringement complaint.

<sup>1</sup> Case No. 2:18-cv-00361

I. ARGUMENT

A. The “Holmes Fix” was intended to avoid state courts ruling upon compulsory patent counterclaims, not to permit gamesmanship for purposes of overcoming the “master of complain” doctrine or the first-filed rule

1. WSU’s patent claim was asserted to manipulate jurisdiction and is not a compulsory counterclaim

WSU argues its removal of Phytelligence’s state law breach of contract and declaratory judgment action is proper due to the application of 28 U.S.C. § 1454. While WSU is correct that Section 1454 was created to permit removal of a counterclaim arising out of patent law,<sup>2</sup> the “*Holmes* fix” was just that. It was created to avoid the trap by which compulsory patent counterclaims were once forced into state court. The “fix” was not, however, intended to create a new problem and permit the assertion of non-compulsory counterclaims solely for the purpose of obtaining federal court jurisdiction over the plaintiff’s state law causes of action.

As a number of courts have commented, the legislative history of the America Invests Act, the bill by which Section 1454 was enacted, demonstrates that it was passed as a “*Holmes* fix” that avoided the litigation of federal question patent or copyright claims in state court, in order to ensure uniformity. *See Donahue v. Tokyo Electron Am., Inc.*, A-14-CA-563-SS, 2014 WL 12479285, at \*3 (W.D. Tex. Sept. 2, 2014); *Masimo Corp. v. Mindray DS USA, Inc.*, CIV.A. 15-0457 SDW, 2015 WL 5164813, at \*8 (D.N.J. Sept. 1, 2015)(discussing that legislative history demonstrates the purpose of Section 1454 was to prevent state courts from acquiring jurisdiction over patent claims, which have been within the exclusive jurisdiction of federal courts since at least 1836).

Nevertheless, Congress intended only to prevent compulsory patent counterclaims from being forced into state court, and not to create avenues by which federal jurisdiction can be created through unrelated counterclaims. This intent is apparent from the comments of Sen. Kyl, who remarked that by limiting the expansion of appellate jurisdiction in the Federal

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<sup>2</sup> A principle, which despite diligent research performed, was not apparent to counsel for Phytelligence at the time the Motion for Remand was filed.

1 Circuit to compulsory counterclaims, the new law would avoid manipulation of jurisdiction by  
 2 a defendant with a permissive patent counterclaim. 157 Cong. Rec. S1379 (daily ed. Mar. 8,  
 3 2011) (statement of Sen. Kyl). The Legislature’s intent is also apparent on the face of Sections  
 4 1454(d)(1)-(2) which require federal courts to remand claims removed under Section 1454(a),  
 5 but which are not within the original or supplemental jurisdiction of the court, and permit  
 6 remand of claims within the supplemental jurisdiction when they fall within the provisions of  
 7 Section 1367(c). Thus, Section 1454 ensures federal courts may exercise jurisdiction over  
 8 patent claims, but also provides a framework by which the federal courts may continue to  
 9 respect principles of comity and strict construction of removal statutes by remanding the state  
 10 law claims. *See Shamrock Oil & Gas Corp. v. Sheets*, 313 U.S. 100, 109, 61 S. Ct. 868, 872,  
 11 85 L. Ed. 1214 (1941)(“Due regard for the rightful independence of state governments, which  
 12 should actuate federal courts, requires that they scrupulously confine their own jurisdiction to  
 13 the precise limits which the statute has define.”)

14 Phytelligence’s patent counterclaim is not, however, a compulsory counterclaim.

15 Federal Rule 13(a) provides that a counterclaim is compulsory only if it arises out of  
 16 the same transaction or occurrence that is the subject of the opposing party’s claim. In the  
 17 patent-infringement context, the Federal Circuit applies three tests to determine whether a  
 18 patent infringement claim arises out of the same transaction or occurrence: “(1) whether the  
 19 legal and factual issues raised by the claim and counterclaim are largely the same; (2) whether  
 20 substantially the same evidence supports or refutes both the claim and the counterclaim; and  
 21 (3) whether there is a logical relationship between the claim and the counterclaim.” *In re*  
 22 *Rearden LLC*, 841 F.3d 1327, 1332 (Fed. Cir. 2016).

23 Here, the legal issues raised by Phytelligence’s complaint and WSU’s unfounded patent  
 24 infringement counterclaim share no legal or factual bases. Phytelligence alleges WSU  
 25 breached the Propagation Agreement’s option clause by refusing to provide a license, the  
 26 issuance of which was expected by both parties and the purpose of the Propagation Agreement.

1 The legal issues implicated by Phytelligence’s claim are wholly grounded in state contract law  
 2 and the evidence expected to be offered surrounding that cause of action relate to: the attempts  
 3 made to exercise Phytelligence’s option, the conduct of WSU in entering an exclusive license  
 4 agreement with a third party, and the damages suffered by Phytelligence as a consequence of  
 5 WSU’s refusal to provide the required license. Conversely, WSU alleges in its patent  
 6 infringement claim that Phytelligence sold patented cultivars to third parties and thereby  
 7 infringed upon the patent that is the subject of the license.<sup>3</sup> Although both claims relate to the  
 8 patented cultivars, the resolution of Phytelligence’s claim involves no issues of patent law.  
 9 Admittedly, there is a limited degree of logical relationship between the claim and  
 10 counterclaim, because should Phytelligence succeed in its request for specific performance,  
 11 WSU’s baseless patent infringement claim will be made wholly moot. Nonetheless, it could  
 12 hardly be said that should WSU have failed to assert a patent infringement claim here that it  
 13 would be barred by res judicata from being raised in subsequent litigation, which is the  
 14 hallmark of a compulsory counterclaim.<sup>4</sup> *Local Union No. 11, Int’l Bhd. of Elec. Workers,*  
 15 *AFL-CIO v. G. P. Thompson Elec., Inc.*, 363 F.2d 181, 184 (9th Cir. 1966)(“a party who fails  
 16 to plead a compulsory counterclaim is precluded by res judicata”).

17 2. Similarly, there is no supplemental jurisdiction over Phytelligence’s claims

18 The Court should similarly rule that Phytelligence’s state court claims are not within  
 19 the supplemental jurisdiction of federal district courts established by 28 U.S.C. § 1367, and  
 20 remand Phytelligence’s state court claims pursuant to 28 U.S.C. § 1454(d)(1).

21 Pursuant to Section 1367(a), federal district courts have supplemental jurisdiction over  
 22 “all other claims that are so related to claims in the action within such original jurisdiction that  
 23 they form part of the same case or controversy.” To exercise supplemental jurisdiction, the  
 24 claims over which the court will exercise jurisdiction must arise out of a “common nucleus of

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 26 <sup>3</sup> Phytelligence denies that it sold any of the patented WA 38 cultivars and believes this claim was asserted purely  
 27 as an attempt to avoid the sizeable damages resulting from WSU’s wrongful conduct in breaching the Propagation  
 Agreement by entering into an exclusive license agreement with a third party.

<sup>4</sup> Which is especially true here, when that claim was already pending in federal district court.

operative fact.” *United Mine Workers of Am. v. Gibbs*, 383 U.S. 715, 86 S. Ct. 1130, 16 L. Ed. 2d 218 (1966). However, the power to exercise supplemental jurisdiction is limited, and federal courts should avoid exercising jurisdiction over state law claims needlessly. *Id.* at 726. Where state law and federal law claims only relate generally through a larger dispute, but do not share the same operative facts, courts lack supplemental jurisdiction. *AngioScore, Inc. v. TriReme Med., LLC*, 666 Fed. Appx. 884 (Fed. Cir. 2016)(reversing and remanding with instruction to dismiss state law claims over which court did not have supplemental jurisdiction because they were only generally related to the patent infringement claim on which federal jurisdiction was based).

Here, the sole claim over which this court maintains original jurisdiction is WSU’s baseless patent infringement claim. As addressed above, the facts which must be established to demonstrate WSU’s breach of the Propagation Agreement only relate tangentially to the facts which might support patent infringement. Under similar circumstances, federal courts have remanded or dismissed state law claims while retaining the patent law claim on which removal was based under Section 14549(d)(1). *See, e.g., Id.* (allegation of breach of fiduciary duty against board member who failed to offer invention to his fiduciary was not within supplemental jurisdiction of federal court hearing patent infringement case, despite the fact that both causes of action required the court to hear related evidence, because the operative facts of each cause of action minimally overlapped); *TransCardiac Therapeutics, Inc. v. Yoganathan*, 85 F. Supp. 3d 1351 (N.D. Ga. 2014)(declining to exercise supplemental jurisdiction over and remanding state law breach of contract claims despite proper removal of patent law claim under 28 U.S.C. § 1545 because although there was minimal overlap, the claims did not require the same witnesses, presentation of evidence or factual determinations); *Masimo Corp. v. Mindray DS USA, Inc.*, CIV.A. 15-0457 SDW, 2015 WL 5164813 (D.N.J. Sept. 1, 2015)(dismissing patent claims that were previously filed in another court and remanding state law claims to state court); *Moofly Prods., LLC v. Favila*, CV1305866SJOPJWX, 2015 WL

1 12655381, (C.D. Cal. May 19, 2015)(court dismissed state law claims that were unrelated to  
2 copyright claim serving to give court original jurisdiction under Section 1454).

3 Consequently, the Court should remand Phytelligence's state court claims pursuant to  
4 28 U.S.C. § 1454(d)(1).

5 3. The sole claim permitting removal should be dismissed under the first-filed  
6 doctrine, thus it appears WSU is also forum-shopping

7 Even should the Court rule that supplemental jurisdiction exists, it should still remand  
8 the state court claims pursuant to Section 1454(d)(2) by reference to 28 U.S.C. § 1367(c)(2),  
9 because the breach of contract claim predominates over WSU's patent infringement allegation,  
10 which will be rendered moot if Phytelligence's request for specific performance is granted.  
11 Moreover, pursuant to 28 U.S.C. § 1367(c)(3), the Court should exercise its discretion to stay  
12 the patent infringement claim and remand this case in its entirety. As WSU admits, prior to  
13 asserting a patent infringement claim in an attempt to create federal jurisdiction over  
14 Phytelligence's claims, WSU filed a factually identical patent infringement lawsuit against  
15 Phytelligence in a separate cause. That conduct invokes the first-to-file rule. Pursuant to the  
16 first-to-file rule, this court may stay proceedings with substantially similar issues and parties  
17 filed first in a separate cause. *Kohn Law Grp., Inc. v. Auto Parts Mfg. Mississippi, Inc.*, 787  
18 F.3d 1237, 1239–40 (9th Cir. 2015)(holding the first-to-file rule allows a district court to stay  
19 the latter of nearly identical parallel proceedings).

20 B. WSU refused Phytelligence's attempts to confer before a response was due

21 The Court should also reject WSU's request that the Motion to Remand should be  
22 stricken due to an alleged failure to meet and confer. Notwithstanding the fact that  
23 jurisdictional issues should not be ignored for purely procedural bases, counsel for  
24 Phytelligence sought to confer in advance of filing, but was met with nothing but stall tactics.  
25 Nonetheless, Phytelligence continued to engage in substantive written discussions with WSU  
26 following the filing of its motion. However, demonstrating that counsel for WSU only sought  
27 a perceived litigation advantage, counsel for Phytelligence's subsequent offers to consider

1 authority offered by WSU were rejected – violating the spirit of this Court’s order. Instead,  
 2 counsel for WSU insisted a meet and confer would only be considered if Phytelligence struck  
 3 its motion. Based upon the substantive conference that did occur, the refusal by WSU to  
 4 engage in a meaningful exchange of authority, and the legal position WSU ultimately took with  
 5 respect to its removal, Phytelligence believes the spirit of the Court’s meet and confer  
 6 requirement has been met and that its motion and subsequent briefing would have been  
 7 necessary regardless of the timing of a “meet and confer” conference.<sup>5</sup>

## 8 II. CONCLUSION

9 For the foregoing reasons, Phytelligence requests the Court remand all state law claims  
 10 of Phytelligence and WSU, and stay or dismiss WSU’s duplicative patent infringement cause  
 11 of action.

12 DATED this 6th day of April, 2018.

13 s/ Daniel A. Brown  
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27 <sup>5</sup> Albeit, the motion may have taken a different approach had WSU been more forthcoming with its authority.

**CERTIFICATE OF SERVICE**

I hereby certify that on April 6th, 2018, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to all CM/ECF participants.

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